

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

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SUBJECT: Approval of Minutes of the January 5, 2000  
Investment Committee, Open Session

ITEM NUMBER:   3  

ATTACHMENT(S):  1 

ACTION:   X  

DATE OF MEETING: February 2, 2000

INFORMATION:       

PRESENTER(S): Chairperson

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Proposed minutes of the Investment Committee Meeting held in open session January 5, 2000 are submitted on the following pages.

**PROPOSED  
MINUTES OF THE  
INVESTMENT COMMITTEE MEETING  
OF THE  
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
JANUARY 5, 2000  
OPEN SESSION  
ROBYN D. MILLER BOARD ROOM  
7667 FOLSOM BOULEVARD  
SACRAMENTO, CALIFORNIA**

**COMMITTEE MEMBERS PRESENT**

Gary Lynes, Chairperson  
George Fenimore  
Marty Mathiesen  
Lillian Raffel  
Emma Zink  
Phil Angelides, State Treasurer  
Michael Foulkes, representing, State Controller Kathleen Connell  
Curt Robinson, representing State Superintendent of Public Instruction,  
Delaine Eastin  
Annette Porini, representing State Director of Finance  
Tim Gage

**OTHER BOARD MEMBERS PRESENT**

Jennifer DuCray Morrill  
Chris Drevalas  
Ann Stausboll

**STAFF PRESENT**

James Mosman, Chief Executive Officer  
Patrick Mitchell, Chief Investment Officer  
Elleen Okada, Director of Investment Admin. and External Relations  
Chris Waddell, Chief Counsel  
Doug Wills, Staff Counsel  
Ed Derman, DCEO, External Affairs and Program Development  
Michelle Cunningham, Director of Fixed Income  
Real Desrochers, Director of Alternative Investments  
Richard Rose, Principal Investment Officer  
John Petzold, Investment Officer  
Robert Woods, Investment Officer  
Jim Hurley, Investment Officer  
Mary Ann Avansino, Administrative Assistant

**OTHERS PRESENT**

Allan Emkin, Pension Consulting Alliance  
Nori Gerardo Lietz, Pension Consulting Alliance  
Doug Le Bon, Pathway Capital Management  
Loretta Hennessey, CIBC

Anthony Ressler, Apollo Advisors  
Jim Laurie, Stone and Youngberg  
Paul Knepprath, American Lung Association of California  
Beverly Carlson, CTA  
Edna White, CRTA  
Ellen Logue, CRTA/NEA  
Donald Douglas, CRTA/NEA

A quorum being present, Chairperson Lynes called the open session meeting to order at 11:05 a.m.

I. **ANNOUNCEMENTS** (Item 2)  
There were no announcements.

II. **APPROVAL OF MINUTES OF THE NOVEMBER 3, 1999 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)  
MOTION duly made by Ms. Porini, seconded by Ms. Zink and carried to approve the minutes of the November 3, 1999, Investment Committee, Open Session as presented.

Mr. Mitchell announced that as of the end of December the fund was at \$110 billion.

Mr. Emkin stated for the record that the results could be attributed to the allocation decisions made by the Committee.

III. **REPORT OF SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 4)  
Mr. Angelides reported that the Subcommittee approved a resolution to amend the Corporate Governance Policy to include a policy on Securities Litigation.

By a vote, the Investment Committee confirmed the resolution approved by the Subcommittee to amend the Corporate Governance Policy to include a policy on Securities Litigation.

Mr. Angelides reported that the Subcommittee passed a motion to schedule an item for discussion of the tobacco issue, to authorize staff to obtain an update to the BARRA RogersCasey tobacco report previously presented to the Investment Committee in April of 1998, and to authorize Pension Consulting Alliance to prepare a report to include information on action being taken by funds in regard to the tobacco issue as well as a prospective look at tobacco as an investment.

By a vote the Investment Committee confirmed the action of the Subcommittee to schedule an item for discussion of the tobacco issue and authorize related reports.

IV. **PANEL DISCUSSION – SECURITIZED BUSINESS LOANS** (Item 5)  
Mr. Mitchell introduced Ms. Hennessey, Mr. Ressler, and Mr. Laurie. The panel discussed the broad category of loan securitization, collateralized loan obligations, collateralized debt obligation markets, and securitized small business loans.

Chairperson Lynes recessed the meeting at 12:15 p.m.  
The meeting reconvened at 1:05 p.m.

V. **CREDIT ENHANCEMENT – REPORT ON SECURITIZED BUSINESS LOANS** (Item 6)

Mr. Mitchell and Mr. Rose presented the written report and stated that Staff's conclusion was that this is not a viable investment avenue for the fund to pursue at this time.

VI. **REAL ESTATE – UPDATE ON URBAN REAL ESTATE PROGRAM** (Item 10)

Mr. Mitchell and Ms. Gerardo Lietz discussed the written report outlining the delivery vehicles, investment strategies, and investment focus of an Urban Real Estate Program within the current Real Estate Program.

BY CONSENSUS, the Committee directed Staff to proceed with the Urban Real Estate program as outlined in the proposed investment focus.

VII. **ACTIVITY STATUS REPORT – REAL ESTATE** (Item 13)

Mr. Hurley presented the written report and stated that real estate acquisitions in 1999 totaled \$1.1 billion.

VIII. **GENERAL – REQUEST FOR PROPOSAL FOR MASTER CUSTODIAN** (Item 7)

Ms. Okada and Mr. Petzold presented and discussed proposed specifications for a RFP for Master Custodian.

MOTION duly made by Mr. Angelides, seconded by Mr. Fenimore and carried to adopt a resolution to authorize Staff to:

- 1) extend current contract to accommodate completion of the RFP process;
- 2) release an RFP for Master Custodian as described in Attachment 2;
- 3) use open ended (evergreen) contracts;
- 4) delegate final selection to Staff with periodic updates to the Investment Committee; and
- 5) incorporate into the CIO's semi-annual review of external equity and real estate managers, a review of the services provided by the master custodian.

Mr. Foulkes voted no.

Mr. Foulkes stated for the record that the Controller is opposed to evergreen contracts and delegation of the final selection to Staff.

Mr. Emkin stated that the nature of this process is of such a technical nature that is best suited for the final selection to be made by Staff.

IX. **HOME LOAN PROGRAM – REPORT ON REVITALIZATION AND ENHANCEMENTS** (Item 8)

Ms. Cunningham and Mr. Woods discussed the history, business plan, enhancements, policy updates, and future plans for the Home Loan Program.

MOTION duly made by Mr. Angelides, seconded by Mr. Fenimore and carried to adopt a resolution approving the updated Home Loan Program Policies.

X. **REPORT ON INCLUSION OF PACIFIC BASIN INVESTMENTS** (Item 9)

Mr. Le Bon discussed an analysis of the feasibility and potential benefit of inclusion of developed Pacific Basin countries in the alternative investment portfolio. Mr. Le Bon stated that although CalSTRS should not automatically exclude an investment with a private equity firm in one of the countries analyzed, there should be no directed effort to commit to partnerships in the countries analyzed.

- XI. **LEGISLATION** (Item 11)  
There was nothing further to report.
- XII. **ACTIVITY STATUS REPORT – CREDIT ENHANCEMENT** (Item 12)  
Mr. Rose reviewed the written report.
- XIII. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 14)  
Mr. Desrochers reviewed the written report.
- XIV. **QUARTERLY LITIGATION REPORT** (Item 15)  
Mr. Waddell reviewed the written report.
- XV. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 16)  
Mr. Mitchell distributed copies of the 1998 BARRA RogersCasey tobacco report, discussed at the Subcommittee meeting, which will be updated for a future meeting. Mr. Mitchell stated that for the period of this report all major asset categories had outperformed their benchmarks.
- Mr. Mitchell requested authorization to use an executive search firm to begin the process for hiring a Director of Real Estate. The Committee directed Staff to acquire a search firm to assist in hiring a Director of Real Estate and approved an exemption from the DVBE requirements.
- XVI. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 17)  
There were no statements from the public.
- XVII. **MOVE TO CLOSED SESSION**  
Chairperson Lynes recessed the meeting at 2:40 p.m. and reconvened into closed session at 2:50 p.m.
- XVIII.. **ADJOURNMENT**  
Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 3:28 p.m.

James D. Mosman, Chief Executive Officer and Secretary to the  
Teachers' Retirement Board

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Gary Lynes, Chairperson